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For the Attention of Steve Smith –
Managing Director, Markets

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Our Ref.
Your Ref.
01 November 2004

Dear Steve,

RE: Consultation on an application by South Hook LNG Terminal Company Ltd (SHTCL) (owned by Qatar Petroleum and Exxon/Mobil) under section 19C of the Gas Act 1986 for an exemption from section 19D of the Gas Act 1986

Thank you for the opportunity to comment on the above referenced application and the Ofgem initial views.

Centrica supports the development of new infrastructure that increases the options for new gas to reach the GB market. As such we welcome the development by SHTCL to develop the import facility at South Hook, Milford Haven and in particular note that both phases of the facility may be operational by 2009. However, there are a number of issues with this application that merit comment including particulars updating the application since the preliminary view was sought. It is particularly noteworthy that every proposal to construct LNG import facilities in GB has been the subject of an Application for exemption (or for the seeking of a preliminary view). As such we are not clear whether this accords with the intention of the EU Directive and the GB Legislation. In particular we believe that this raises issues of competition between existing infrastructure and any new projects. We would welcome Ofgem's thoughts on this point.

Our specific concerns are as follows:

- a) Third Party Access – we note that QP may bring a third party into the project at a date in the future. We do not believe that such activity can be classified as an “open season” nor that it can automatically be assumed to improve competition as there is no inference as to any consequential changes in the sales intentions of the existing parties.
- b) Publication of Charges – we welcome SHTCL position that they have now agreed to publish all charges including own use.
- c) Use it or Lose it Rules – we note the comments from Ofgem and SHTCL in this area and look forward to early publication of the proposed rules to allow prospective third party users clarity on any requirements to allow effective usage.
- d) Market Share – we note that SHTCL have provided updated information, particularly in respect of Exxon/Mobil share of relevant market. However, as with our response to Ofgem's previous consultation in respect of this terminal, we are still unclear how ExxonMobil's position in the UK market cannot have increased when it is receiving 100% of the output from this facility and relevant percentages of BBL etc. WE would welcome Ofgem's views on this point.
- e) Draft Exemption –

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- i) Para C – we note the requirement for 25 year exemptions for each phase, linked to the date of commercial operation. Since there is no certainty on these dates, particularly for Phase 2 we would recommend reference to a “latest” date. The update of Section 2.5 (page v) of the Application also refers.
- ii) Para D5 – In this clause “Transco plc” is referred to. It is not clear whether the legal language will automatically capture any change in ownership or operation of the relevant pipeline following the current NGT disposal of DNs. We also note that “information” is defined in a specific manner which we believe can be approved as follows: “In this condition ‘information’ means information in respect of the facility as is relevant to the operation of the pipeline system(s) to which the facility is connected.”

We believe that there are two principal objectives underpinning the case for the exemption, namely, enhancing security of supply and whether there would be any detriment to competition. We believe that the more competing sources of wholesale gas there are entering the UK gas market via different entry routes, the more security of supply will be enhanced. Furthermore, the more sources available from an increased range of independent suppliers of wholesale gas, the greater the pressure that can be brought to bear on wholesale gas prices in the market generally.

We note that this is one of four applications that are in the pipeline which are requesting formal exemption, namely, South Hook, Isle of Grain, Dragon and BBL. In each case the applicant has provided its own competition analysis. We would strongly suggest that Ofgem should be undertaking its own competition analysis of the market and reaching its own view, as Ofgem is likely to be the best informed organisation to take such a view, as part of Ofgem’s final conclusions and in the cases as submitted formally to the Commission for their approval.

In conclusion when considering this application against the criteria identified for an exemption to be granted we believe that overall, this project is likely to meet them. However, we believe that it is appropriate that we and the industry receives clarification/comfort in respect of the points outlined above before any such exemption decision is finally made by Ofgem.

Should you wish to discuss this response further please do not hesitate to contact me.

Yours sincerely,

Simon Goldring
Transportation Manager

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